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FINNISH-SOVIET TRADE RELATIONS

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S-E-C-R-E-TSummary

Large reparation payments by Finland to the USSR in the post-war years, 1944-52, had the effect of gearing the Finnish economy to Soviet requirements. When reparation payments were completed in 1952, the Western market situation was such that Finland was forced to turn to the Soviet Bloc for increased trade. Since 1952 the percent of Bloc trade to total Finnish trade reached a high of over 30 percent, with the USSR replacing the UK as Finland's major trading partner. The terms of the new 5-year trade agreement between Finland and the USSR follow this general trend with projected trade increasing steadily over the 5-year period.

Soviet exports to Finland have been consistently less than imports from Finland, consequently, Finland has built up a large ruble balance. In an effort to adjust this imbalance, trilateral agreements with Satellite countries have been arranged and have been partially successful.

With Finland's trade increasingly oriented to the Bloc, she has been desperately seeking means to procure unavailable Western exchange. Recent USSR-Finland credit and trade agreements have recognized this need. Although the USSR has agreed to grant Finland a \$10 million gold loan and pay a limited portion of future deficits in gold or foreign currencies, the negotiations leading up to these agreements were dominated by the fact that the USSR is the only market available for much of Finnish metal and wood production.

I. Introduction.

As provided by the Armistice of September 1944, and confirmed by the Paris Treaty of 1948, reparations in commodities amounting to over \$500 million (see Table 1) were delivered by Finland to the USSR in the 8 years subsequent to the Armistice. 1/* These deliveries consisted primarily of metal manufactures, ships, and wood products. Since more than one-half of the reparations deliveries consisted of commodities not previously exported by Finland, payments during the first years worked a great hardship on the Finnish economy. During the first 5 post war years it was necessary for Finland to borrow \$373,000,000, chiefly from the US and Sweden, for investment in the metal-working and ship-building industries. Reparations deliveries in 1946 accounted for 5.6 percent of the Net National Product of Finland. In 1951, however, the expansion program had progressed considerably, and reparations deliveries accounted for only 1.3 percent of the Net National Product. 2/

When reparations were about to end in September 1952, Finland was faced with the problem of finding foreign markets for the type of goods formerly delivered as reparations. Western markets were unable to absorb significant quantities of these commodities, principally metal products and wood products, for several reasons:

1. Since the Post-Korean boom the world demand for wood and wood products had declined considerably, causing a drastic drop in prices and an extremely competitive world market. Consequently, Finland's largest industry, wood and wood products, was faced with a situation of rigid production costs and a declining world market price. 3/
2. Finland's newly expanded metal-working industry, now the second largest industry, was a high-cost producer. Also, since it was expanded to fulfill reparations obligations to the USSR, it was geared to Soviet requirements which did not necessarily correspond to the needs of Western markets. 4/

* Footnote references in arabic numerals are to sources listed in the Appendix.

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Therefore, Finland was forced to turn to the USSR where the export possibilities were more favorable than in the West. Consequently in September 1952, when reparations deliveries ended, Finland and the USSR concluded a supplementary agreement to the 1952 trade agreement which increased the trade of these countries for the remainder of 1952 and increased the exports and imports for each of the years remaining under the 5-year agreement (1953-55) by \$43.7 million.*

II. Trade Protocol, 1953.

In November 1953, a trade protocol was signed between Finland and the USSR establishing the level of trade between the two countries for 1954. The value of Finnish exports set by this protocol was \$19.3 million higher than the export values set by the long-term agreement for 1954. In addition, the value of Finnish imports was set at \$4.2 million higher than the import value set by the long term agreement. Both import and export values established by this trade protocol were lower, however, than the values established by a trade protocol for 1953. The scheduled reduction in Finnish imports was probably due to a more realistic alignment of actual Soviet exports and trade agreement commitments, while actual Finnish exports of metal industry products were cut 10 percent on the grounds that Finnish prices were too high. (See Table 1.)

Machinery and equipment exports from Finland will constitute 30 percent of Finland's exports to the USSR in 1954, and 35 percent of this will consist of ships. Wood and wood products will comprise 43 percent. The import commitments established by this protocol are generally favorable to Finland because they enable Finland to import most of its requirements of grain, fodder, petroleum products, sugar, and cotton. 2/

The agreement included provisions for the adjustment of Finland's export surplus by trilateral agreements with Satellite countries and by payments from the USSR in gold and Western currencies. These provisions will be discussed in Section V.

III. Long Term Agreement, 1956-60.

A. Negotiations.

Negotiations for the new long term agreement which began in March 1954 were concluded on 15 July 1955. Preliminary reports indicate that Finland hoped to limit annual exports to not more than \$150 million and imports to about \$100 million or to approximately the same level of trade as was set by the 1952 agreement. 6/ The USSR, on the other hand, had requested an expansion of Finnish exports to \$217.5 million annually. However, when negotiations ended and the agreement was signed it stipulated that Finnish exports were to reach a high of \$163.7 million. The Finns seem to have won a slight victory in this respect, although they were forced to give in to Soviet desires for increased ship-construction commitments. In general the commodity component of Finnish Soviet trade is similar to that of previous years. (See Table 2.) 7/

B. Finnish Exports.

Finnish exports under the terms of the new 5-year trade agreement will steadily increase throughout 1956-60. Exports are to increase from \$147.5 million in 1956 (\$6.5 million above the planned exports for 1954) to \$163.7 million in 1960. (See Table 3.) A comparison of the recorded trade values for the years 1951-53 indicates that the trade values set by the 1950 long-term agreement, and the trade values set by the 1-year agreements for 1950-53 for Finnish exports to the USSR were greater than the values stipulated in the 1950 agreement and almost equal to the values set by the yearly agreements. Consequently, it seems safe to assume that Finnish export commitments set by this new long-term agreement probably will be delivered.

The commodities to be exported by Finland under this agreement are essentially the same as were exported under the 1950 Agreement. The Agreement calls for the delivery of another 10,500 horsepower icebreaker (similar to the three now under construction for the USSR under the present long-term agreement), a new giant

* All quotations in rubles have been converted in memorandum to US\$ equivalents at the rate of 4 rubles per dollar.

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icebreaker of 20,000 horsepower, 3 tankers and 15 cargo ships. These tankers are probably of the size of those previously constructed for the USSR (1,100 DWT and 1,000 DWT). Other Finnish exports include machine tools for working metal, prefabricated houses, sawn timber, pulpwood, cellulose, paper cardboard, and paper goods. 8/

C. Finnish Imports.

Finnish imports from the USSR are to remain lower than Finnish exports, while the agreement provides that Soviet exports will increase \$107.5 million in 1956, (\$7.5 million above the value set for 1954) to \$123.7 million in 1960. Recorded trade values for the years 1951-53 indicate that Soviet exports have consistently fallen short of commitments stipulated in trade agreements. Therefore, should this situation continue, the export surplus in favor of Finland will be even larger than the trade agreement figures would indicate. Soviet exports will consist of cereals, sugar, fodder, synthetic fertilizers, liquid and solid fuels, metal, rolled metal, cotton, chemicals, and furs. 9/

D. Special Features and Provisions.

Several special features and provisions of the new long-term trade agreement include:

1. A provision that the trade surplus in favor of Finland will be adjusted by trilateral agreements with several Satellite countries and by payments from the USSR in gold and Western currencies. These provisions will be discussed in detail in Sections IV and V respectively.

2. An Appendix, consisting of a joint declaration for the promotion and maintenance of international peace and security "in conformity with the principals of the UN" and for the understanding of the two governments that "only collective forces of all states regardless of social structure can insure security of peoples since the struggle for peace and against threat of new war is in the general interest of all states."

3. The Appendix also includes an agreement to raise the legations in the respective capitals to the status of Embassies and to exchange Ambassadors. 10/

This is the first time in Finnish-Soviet trade relations that such a political appendix has been connected to an economic agreement. It seems to reaffirm some of the principals of the Treaty of Friendship signed by the USSR and Finland in 1948.

IV. Trilateral Agreements.

The use of trilateral agreements with Satellite countries to compensate for a surplus of Finnish exports to the USSR is not a new arrangement in Soviet-Finnish trade relations. Trilateral agreements were provided for in the 1950 long-term agreement and were used with some success. Trade imbalances in 1951 and 1952 were covered by trilateral agreements with Czechoslovakia and Poland. A large imbalance in 1953 was only partially covered, however, by such agreements. 11/ In the 1954 agreement provision was also made for the trade imbalance to be covered partially by trilateral agreements. 12/

Since Finnish industries are dependent on imports of raw materials, many of which the Satellites are unable to supply, trilateral agreements with Satellite countries offered only limited assistance to the export surplus problem. Consequently in the latter months of 1953, Finland proposed that the UK and France enter into trilateral agreements with Finland and the USSR for 1954. Trilateral agreements involving another Western country would enable Finland to import Western raw materials; these proposals were, however, turned down by both the UK and France. 13/

V. Credit and Loan Provisions.

In early February 1954, an agreement was signed in Moscow under which the USSR granted Finland a \$30 million standby credit. The credit may be drawn upon in either gold or foreign exchange within the next 3 years at the discretion of

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the Finns. Any amount borrowed is to bear interest at 4.5 percent and is to be repaid over a period of 10 years in the same medium in which it is received. 18/ So far as is known, this is the first gold or convertible currency loan granted by the USSR to a non-Bloc country.

25X6

25X6 [redacted] pointed out that there was no obligation on Finland's part to draw upon the credit except as that country might wish to do so in order to strengthen its exchange reserves. It was also pointed out that there were no present plans for making use of the credit. 15/

At the time the credit was negotiated, the USSR also agreed to settle the 1954 Finnish export surplus (expected to amount to over \$16 million) in gold and foreign exchange. This scheme was also made part of the 1956-60 trade agreement, signed in July 1954, under which a quarter of the anticipated Finnish-USSR trade imbalance is to be settled in gold or convertible currencies. (See Table 3.) The Finns recently received a payment of \$5,000,000 worth of gold from the USSR under the 1954 trade agreement. 16/

In spite of Communist propaganda to the contrary neither the credit agreement nor the gold-convertible currency provisions in the 1954 and 1956-60 trade agreements represent a bargain for Finland. In late 1953, Finland had a \$10 million balance in her clearing account with the USSR 17/ and Finnish Ruble clearing was being offered in "unlimited amounts" at an 18 percent discount by a Finnish bank to a large US firm. 18/ Furthermore the Finns had been subsidizing at substantial losses re-exports of large quantities of Soviet-Bloc goods as one method of getting rid of unusable Bloc imports. In order to minimize such losses and turn the ruble balances into a usable form, the Finns had for some time been negotiating for the conversion of these excessive balances into gold or Western currencies as she was entitled to demand, under the terms of her 1950 trade agreement with the USSR. It was from such a position of weakness -- the small supplier dominated by the giant buyer -- that the recent series of Russo-Finnish trade and credit agreements were negotiated.

It had previously been made plain by the US Secretary of State that a Finnish request for help in meeting its hard currency needs would receive sympathetic consideration in Washington. 19/ Furthermore the USSR could have paid her existing debts to Finland in hard currency. It is possible therefore that the Finns accepted the credit agreement under Soviet pressure, as the only alternative left to holding onto unusable ruble balances and possibly as a wedge toward securing convertibility of a fraction of the trade imbalances planned under the 1954 and the succeeding 5-year trade agreement.

As a dominant purchaser, the USSR is in a position to gain increasing control over the Finnish economy. The February credit agreement and the political covenants discussed during negotiations of the recent Finnish-Soviet trade agreements are symptoms of the utilization of Soviet power. So long as the Finns are forced, by uncertain Western markets and their own rigid internal cost structure, to orient their trade toward the USSR, the trend of a stronger Soviet voice in Finnish economic and political affairs can be expected.

VI. Conclusions.

1. Since the end of World War II the Finnish export industries have become increasingly dependent on Bloc markets. This dependence has followed in part from the buildup of a high-cost metal-working industry needed to meet Soviet reparations.

2. The new 5-year trade agreement, signed in July 1954, provides for a continuing increase in Soviet-Finnish trade, though not so great as the USSR had originally asked. The Finnish commitments under past Soviet-Finnish trade agreements have in large part been met or exceeded, so it may be expected that the projected level of Finnish exports under the present 5-year agreement will also be met. If Finland's total foreign trade remains at a level near that of previous years, the Soviet Bloc, chiefly the USSR, will consequently increase its share which now stands at 30 percent. The main hope of reducing Finland's economic

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dependence on the USSR lies in increasing trade with the West -- an unlikely possibility unless Finnish processing and manufacturing costs can be reduced or world prices of metal and wood products increase.

3. In spite of Communist propaganda to the contrary, neither the credit agreement nor the gold-convertible currency provisions in the 1954 and 1956-60 trade agreements represent a bargain for Finland.

Finland has been losing steadily in its trade with the USSR and therefore, it was from a position of weakness that she was forced to accept the Soviet ruble credit offer.

The conversion of ruble balances into usable form is provided for in the 1950 agreement, and Finland had for some time been negotiating for conversion of the excessive balance to gold or Western currencies. As a dominate purchaser, the USSR is in a position to maneuver credit and payment negotiations in their favor.

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Table 1

Trade of Finland with the USSR a/
1936-54

Thousand US \$

Year	Imports	Trade Balance	Exports			
			Exports (Excluding Reparations and Former German Assets)	Reparations	Former German Assets	Total Exports
1936	3,084	- 2,268	816			
1937	3,284	- 2,325	1,259			
1938	2,603	- 1,665	938			
1945				91,200		
1946	24,477	+ 9,549	34,026	64,500		
1947	28,852	- 3,149	25,703	76,506	14,942	117,741
1948	51,207	+ 346	51,553	84,894	9,216	146,914
1949	34,880	+ 18,665	53,545	74,286	6,977	136,256
1950	23,676	+ 3,441	27,117	34,113	3,276	64,802
1951	41,390	+ 26,217	67,607	53,899		121,521
1952	81,581	+ 37,700	119,281	35,721		155,002
1953	89,647	+ 55,875	145,522			145,522
1954 b/	82,200	+ 52,500	134,700			134,700

a. Including reparations and return of former German assets.

b. Annual rate - January-April.

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1948-53**

		Thousand US \$					
		Exports to the USSR ^{a/}					
		1953	1952	1951	1950	1949	1948
Food, Beverages, and Tobacco	14	1,596			405	3,091	2,893
Wood and Wood Products ^{b/}	56,100	69,117	46,136	16,113	44,293	57,315	
Chemicals	901	1,748		9	60	84	
Manufactured Goods	19,231	14,209	4,599	2,705	11,361	21,760	
Machinery and Transportation Equipment	68,994	68,274	70,044	45,447	77,287	64,387	
Miscellaneous Manufactured Articles and Others	282	56	292	123	164	455	
Total		145,222	155,000	121,071	64,802	136,256	146,914
		Imports from the USSR					
Foodstuffs	60,169	64,611	30,750	16,469	19,525	37,913	
Beverages and Tobacco	394	616	685	426	132	703	
Inedible Crude Materials							
Except Fuel	9,519	3,517	2,439	1,220	2,160	1,492	
Mineral Fuels	7,101	1,200	2,682	2,676	4,732	2,351	
Chemicals	2,740	967	176	1,156	2,057	2,335	
Manufactured Goods	7,614	9,734	3,280	413	4,831	5,401	
Miscellaneous and Others	2,110	936	1,378	1,316	1,443	1,012	
Total		89,647	81,581	41,390	23,676	34,880	51,207

a. Including war reparations.

b. Including synthetic fibers and wood pulp.

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Table 3

Projected Trade of Finland with the USSR
Trade Agreement 1956-60

Thousand US \$			
<u>Year</u>	<u>Imports</u>	<u>Exports</u>	<u>Balance</u>
1956	107,500	147,500	+ 40,000
1957	108,700	148,700	+ 40,000
1958	117,500	157,500	+ 40,000
1959	120,000	160,000	+ 40,000
1960	123,700	163,700	+ 40,000

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